

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ADP-00 AID-20 EB-11 NSC-10 RSC-01

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FM AMEMBASSY ROME

TO SECSTATE WASHDC 7760

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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E. O. 11652: N/ A

TAGS: EFIN/ IT

SUBJECT: ITALIAN EXCHANGE RATE AND BALANCE OF PAYMENTS DEVELOP-
MENTS

1. SUMMARY. FIRST NATIONAL CITY BANK MILAN REPORTS INTERBANK LIRA/ DOLLAR RATES AFTERNOON MARCH 13 IN COMMERCIAL AND FINANCIAL MARKETS WERE 567 AND 571 LIRE PER DOLLAR RESPECTIVELY. ITALIAN REACTION TO EC DECISION ON JOINT FLOAT IS ONE OF DISAPPOINTMENT. PROVISIONAL BALANCE OF PAYMENTS DEFICIT FOR 1972 WAS \$1,366 MILLION. FOLLOWING DEFICIT OF \$705 MILLION IN JAN 1973, ITALY HAD SURPLUS OF \$60 MILLION IN FIRST HALF FEBRUARY. END SUMMARY.

2. DOLLAR WAS SOMEWHAT STRONGER MARCH 13 IN INTERBANK TRADING
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IN MILAN, WITH COMMERCIAL FINANCIAL LIRA REVALUED AGAINST PRE-DEVALUATION DOLLAR BY 2.6 PCT AND 1.8 PCT RESPECTIVELY. RELATIVE DOLLAR STRENGTH IN MILAN AND OTHER MARKETS REPORTEDLY REFLECTED REUTER REPORT THAT CENTRAL BANKS PLANNING TO BEGIN GOLD SALES IN FREE MARKET. TOURISTS IN ROME CONTINUING TO GET EXCHANGE RATE IN RANGE 540-560, DEPENDING UPON TYPE OF DOLLAR INSTRUMENT. AMOUNTS GENERALLY LIMITED TO \$100 PER PERSON.

3. STATEMENT BY TREAS MIN MALAGODI ON RETURN FROM EC FINMINS MEETING MARCH 11 SHOWS DISAPPOINTMENT WITH FAILURE OF COMMUNITY TO ADOPT ITALIAN IDEAS FOR THREE-PHASE PROGRAM OF EC MONETARY INTEGRATION EMBODYING MORE FLEXIBLE FORM OF BLOC FLOAT, LARGER EC RESOURCES FOR CURRENCY SUPPORT AND BROADER ROLE FOR NEW EUROPEAN MONETARY COOPERATION FUND. MALAGODI DESCRIBED DECISION TO LET DOLLAR FLOAT AS POSITIVE FACTOR. HE MENTIONED EC COMMISSION HAD MADE PROPOSAL SIMILAR TO THAT PRESENTED BY ITALY, AS HAD UK. HOWEVER, LEAP FORWARD IN QUALITY OF MONETARY INTEGRATION WHICH HAD BEEN DESIRED BY ITALIANS AND WHICH MIGHT HAVE BEEN POSSIBLE OF ACHIEVEMENT HAD NOT BEEN MADE. THEREFORE, LIRA WOULD CONTINUE TO FLUCTUATE WHILE MAINTAINING CLOSE CONTACTS WITH OTHER EC MEMBERS. IN MEANTIME, SIX MEMBERS OF COMMUNITY HAD CREATED NEW "SNAKE," WHICH MALAGODI DESCRIBED AS "MORE RIGID AND, IN OUR JUDGMENT, LESS REALISTIC." GOVERNOR CARLI ALSO QUOTED AS SAYING AT MEETING THAT EC COUNTRIES "CONDEMN SPECULATION BUT, IN FACT, WE CONTINUE TO REWARD IT."

4. ITALIAN PRESS REPORTS CRITICISM OF ITALIAN POSITION IN GERMANY AND UK WHICH ALLEGES THAT, WHILE POUND STERLING MIGHT NOT HAVE BEEN ABLE TO JOIN NEW FLOAT, LIRA COULD HAVE SINCE IT IS NOT FACED WITH STERLING OVERHANG NOR WITH WORLD MONETARY ROLE. ITALIANS ALSO CRITICIZED FOR TAKING ADVANTAGE OF SITUATION IN ORDER TO HAVE COMPETITIVE DEVALUATION AGAINST EC PARTNERS. SOME WRITERS REFLECT CONCERN THAT ITALIAN ACTION WILL FURTHER ISOLATE ITALY FROM MAINSTREAM OF EC MONETARY INTEGRATION.

5. HOWEVER, ITALIAN PRESS ALSO CRITICAL THAT EC DECISION DOES NOT EXPRESS SPIRIT OF EUROPEAN UNITY SINCE IT DOES NOT TAKE INTO ACCOUNT STRUCTURAL AND OTHER DIFFERENCES AMONG EC PARTNERS. IT IS NOTED THAT GERMANS WERE NOT WILLING TO PLACE FOREIGN RESERVES IN JEOPARDY IN SUPPORT OF OTHER EC CURRENCIES. PRESS REPORTS SECRET FRENCH-GERMAN AGREEMENT BEFORE MARCH 11 MEETING TO REINTRODUCE EC "SNAKE," WHICH EXPLAINED WHY APPARENT INITIAL SUPPORT FOR ITALIAN/LIMITED OFFICIAL USE

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EC COMMISSION PROPOSAL GAVE WAY DURING MEETING.

6. PRESS ALSO SUGGESTS THAT SUCCESS OF EC BLOC FLOAT WILL DEPEND, TO CONSIDERABLE EXTENT, ON POSITION TAKEN BY US AT MARCH 16 MEETING OF C-20 MINISTERS CONCERNING WAYS OF AVOIDING EXCESSIVE DEVALUATION OF DOLLAR AGAINST EC CURRENCIES. US POSITION DESCRIBED AS HAVING CHANGED FROM " BENIGN NEGLECT" TO " BENIGN BUT TEPID INTEREST."

7. PROVISIONAL BALANCE OF PAYMENTS FIGURES ON TRANSACTIONS BASIS FOR 1972 SHOW OVERALL DEFICIT OF \$1,366 MILLION WITH CURRENT ACCOUNT IN DEFICIT BY \$492 MILLION AND CAPITAL ACCOUNT IN DEFICIT \$984 MILLION, WHILE BALANCING ITEMS IN SURPLUS \$110 MILLION. NOTE THAT CURRENT ACCOUNT DEFICIT ON TRANSACTIONS BASIS WILL EVENTUALLY BE REVISED IN " ECONOMIC" BALANCE OF PAYMENTS TO SHOW MERCHANDISE TRADE ON ADJUSTED CUSTOMS BASIS RATHER THAN PAYMENTS BASIS SO AS TO SHOW CURRENT ACCOUNT IN SURPLUS, WHILE CAPITAL ACCOUNT DEFICIT WILL BE CORRESPONDINGLY INCREASED.

8. PRELIMINARY MONETARY MOVEMENTS DATA FOR MONTH OF JANUARY SHOW DEFICIT OF \$705 MILLION, MOST OF WHICH HAD TAKEN PLACE IN FIRST HALF OF MONTH BEFORE DUAL MARKET CREATED WITH FLOATING FINANCIAL LIRA. DURING FIRST HALF FEBRUARY, ON OTHER HAND, MONETARY MOVEMENTS WERE IN SURPLUS BY \$60 MILLION, PROBABLY INDICATING DELIBERATE INTERVENTION BY BANK OF ITALY TO REBUILD FOREIGN EXCHANGE POSITION. FOR ENTIRE PERIOD JAN 1 THROUGH FEB 15, THEREFORE, BALANCE OF PAYMENTS WAS IN DEFICIT BY \$645 MILLION. DURING LATTER PERIOD, NET BORROWING UNDER EC SWAPS TOTALLED \$292 MILLION, OF WHICH \$262 MILLION WERE FROM BELGIAN NATIONAL BANK AND \$30 MILLION FROM DANISH NATIONAL BANK.

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